Sometimes things that are obvious truths can appear before us that we have trouble seeing; along the lines of being too close to the trees to see the forest. It’s not that we can’t see what’s directly in front of us, but rather that we just can’t put what we see into proper perspective. To be sure, this failure to fully comprehend what we can clearly see is not caused by any lack of intelligence and may, in fact, be due to too much knowledge and experience in a given field.

A case in point is a recent article by the top-notch Reuters commodities analyst, Andy Home. To be sure, I’m not using the term “top-notch” loosely, as I find Home to be among the very best in his field. And I can’t help but feel that his knowledge and experience are precisely what is blinding him to something staring him squarely in the face. I would ask you to take the time to read his article about zinc from a few days ago.

https://www.reuters.com/article/us-metals-zinc-ahome/nyrstar-profit-warning-highlights-zincs-disconnects-andy-home-idUSKCN1M41KV

Home points out that the price of zinc seems to be disconnected from its fundamentals in that there has been no expansion of supply and no special falloff in demand. Yet zinc prices have cratered, down around a third from price peaks set earlier in the year. If this sounds familiar, it should – this is essentially the same story in a whole host of base and precious metals, including copper, gold, silver and platinum.

To Mr. Home’s credit, he does point out that speculative hedge funds have ramped up short sales in the active London futures market (zinc is hardly traded in NY) and highlights that these funds have shorted over a million tons of zinc, fully 25% of total open interest. Home attributes the fund short selling to fears of the escalating trade wars, but these funds are the same technically-motivated momentum traders that have built up record short positions in copper, gold, silver, platinum and other metals. As such, they are watching and reacting to moving average penetrations and are not involved in any complex trade negotiation analysis. Mr. Home does say that as a result of this speculative selling that zinc prices have imploded, creating a disconnect between the price and supply/demand fundamentals.

The problem is that Mr. Home is missing the obvious, namely, that the selling by the speculative hedge funds is setting the price, not just in zinc, but in every other metal as well. This is the same obvious truth missed by virtually everyone else as well, including the mining companies and the regulators. The simple proof of this is that zinc and other metals prices would not have declined sharply (imploded in Home's words) and there would be no "disconnect" if this excessive speculative short selling hadn't occurred.

Therefore, there is no disconnect at all – this is about as direct a connection as is possible. Technical hedge fund selling has caused a variety of metals prices to collapse, As to why so many don't or can't see it, I think it's because to admit the obvious would require an acceptance that the price discovery process has become so distorted – and completely in full view – that this is at odds with the very notion of free markets. But how can markets be considered free when prices are determined by a handful of traders, none actually involved in the production, processing or consumption of the actual commodities involved, and not the world's real producers and consumers?

There was a time when most considered the earth to be flat and for the sun to have revolved around the earth and for cutting an arm to drain bad blood would cure one's ailments. Those fallacies came to be overturned, but not without great resistance. I think the same thing is true here – there is a resistance to acknowledging that a few large paper speculators are setting prices with no regard to the actual supply/demand circumstances because the very thought is a challenge to the way people have thought.

Even worse, the resistance to acknowledging the obvious is so firmly entrenched that no debate or discussion is allowed. One would think that if there was nothing wrong with a few large paper speculators coming to dominate the price setting process – if it were just a silly figment of my imagination – that the notion would be thoroughly debunked and dismissed. Instead, there is nothing but absolute silence from the federal commodities regulator, the CFTC, and the self-regulator, the CME Group. I understand the silence – no one dares open this can of worms or awakens this sleeping dog.

It also explains the silence of JPMorgan, who I openly allege is the biggest crook in the whole sick price process. Since when did such an important financial institution shrug off repeated claims of illegal market activity? I'll tell you when – since openly contesting the claims would shine a direct light on the illegal activity. So, a sort of stalemate has come to exist in which the parties who should be most concerned, the CFTC, the CME and JPMorgan, have allowed the absolutely insane circumstance of excessive speculation by the technical funds to continue by not addressing it. And abetted by outside observers who, quite frankly, should know better.

All, of course, is not lost due to the conspiracy of silence. That's because the excessive speculative short selling by the brain dead technical funds has a mandatory and mechanical buy back feature. At some point, when the same moving average penetrations to the downside which prompted so much speculative selling are reversed, there will be excessive speculative buying. The downtrend in metals prices has been months in the making, resulting in more technical fund selling than ever before. It is a mathematical certainty that, at some point, all that selling will be replaced by buying and prices will rise. The price discovery process may be distorted, but it is still governed by a mechanical rhythm.

A case in point is copper. After hitting just over $3.30 a pound in early June (on heavy technical fund buying), copper declined by nearly 75 cents (22%) into earlier this month as 110,000 COMEX futures contracts were sold by the managed money traders (both long liquidation and new short selling), the equivalent of nearly 1.4 million tons (plus a lot more in London). The managed money selling was due to key moving averages being penetrated to the downside. Last week, copper prices jumped more than 25 cents (10%) in a four day period, as the key 50 day moving average was penetrated to the upside. Sudden moves of 20% or 10% in the price of copper require an explanation. The only explanation is excessive speculation. I'm not intending this to be any type of short term prognoses for the price of copper, other than to note that the managed money technical funds seemed to get beat regularly in this market even more regularly than in other markets.

My point, the same as Home's point in zinc, is that the price move down in copper, as well as the sudden burst higher last week had absolutely nothing to do with any developments in actual supply or demand and everything to do with technical fund selling and buying. The only difference is that I'm pinpointing the real price driver and labeling it as manipulative.

Of course, no commodity is manipulated in price by excessive speculation than

COMEX silver. Andy Home points out that the speculative hedge funds hold 25% of the total open interest in London zinc futures, with the implication, at least, that is somewhat excessive. In COMEX silver futures, the percent of total open interest held short by the managed money traders is double that, at close to 50%. In fact, no commodity comes close to the excessive speculation in COMEX silver in terms of either percent of open interest or, more importantly, in relation to the amount of real world production or consumption. That's what makes COMEX silver the most manipulated market in the world.

While being the most manipulated market is, admittedly, a drag when silver prices are being rigged lower, there does come a point when the manipulative selling reaches a point of exhaustion. The problem in silver is even after the speculative selling has exhausted itself and price bottoms have been reached, the rallies that have followed over the past seven years have been, to put it mildly, disappointing. In hindsight, there has been a very good reason why past silver rallies have been so terribly disappointing – JPMorgan has always added to short positions; capping every rally, only to buy back all added short positions at lower prices and at a profit to itself, in the process earning billions of dollars for the bank in cumulative trading profits.

Because JPMorgan has been nothing less than a guaranteed profit-generating machine in COMEX silver (and gold) paper trading, ever since taking over Bear Stearns in 2008, there is a widespread opinion among those aware of JPM's perfect trading record that the bank will continue to short silver on price rallies and buy back on selloffs indefinitely. I understand the consensus opinion, but disagree with it lasting indefinitely. Even though I am the sole author of the revelation that JPMorgan has never taken a loss in COMEX silver or gold trading, that doesn't mean I am claiming infallibility in predicting what JPM will do next. After all, the only certainty is that none of us can predict the future with certainty.

But as perfect as JPMorgan's track record has been in COMEX silver and gold over the past ten years, there looms even larger another revelation that supersedes the never a loss, always a profit trading record of JPM – the bank's accumulation of 750 million ounces of physical silver and 20 million ounces of physical gold over the past seven and a half years. JPMorgan's decision, when it was caught off guard on the short side of silver when it ran up to near $50 in early 2011, to accumulate as much physical metal as possible has been the bank's primary mission ever since, far more important than even the continuation of its perfect trading record.

Please allow me to point out something I haven't raised previously. Silver's (and gold's) quite mediocre price rallies over the past seven and a half years are the proof that JPMorgan was more interested in accumulating physical metal on the cheap than in maximizing its cumulative paper profits. Otherwise, JPM would have allowed much bigger price rallies to develop and maximize its paper profits. It's not as if the nitwit technical funds wouldn't have bought tens of thousands of COMEX contracts at much higher prices than they did buy at, because they don't make value judgments generally. If it's going up, they buy; if it's going down, they sell.

My point is that if JPMorgan was solely interested in maximizing its COMEX paper profits, it would have allowed silver and gold prices to run much higher on the failed rallies of the past seven years before capping prices. Yes, JPM made billions of dollars on a cumulative basis, but it would have made much more had it allowed the price rallies to climb much higher before shorting. Why didn't it? I contend because it didn't want silver or gold prices to climb high enough so as to set off a world-wide rush to precious metals and prevent it from accumulating the massive amounts of physical metal that it did acquire.

Let's face it – we are living through the greatest speculative investment boom the world has ever seen and affecting just about every investment and speculative asset under the sun; excepting, of course, silver and gold. Since we're not living through a time when investors are not in the mood to speculate or during a time when there's a shortage of funds with which to speculate, there has to be a specific reason why investors have chosen not to speculate in silver and gold. And the specific reason has to do with the price not going up, since speculative booms are caused by investors chasing prices higher. It's pretty simple actually – no higher prices, no speculative boom.

No one knows this simple equation better than JPMorgan. It also knows that when higher prices come to silver and gold, the odds are high that a speculative boom will develop there as well, just as it has in everything else under the sun. But a speculative boom in silver or gold is very much at odds with JPMorgan accumulating massive quantities of these metals on the cheap. JPM had to prevent silver and gold prices breaking higher and setting off a speculative boom, which it did by not allowing the rallies over the past seven years from going too high.

The only reason JPMorgan capped all silver and gold rallies over the past seven years was to prevent a speculative boom from developing. Sure, it made much less than it could have made by selling short much higher than it did, but it didn't want to risk higher prices setting off a speculative boom.

But now that JPMorgan has accumulated such massive amounts of physical silver and gold and because prices, particularly for silver, have been driven so low, conditions have changed. JPM is not now just embarking on its physical accumulation journey; that journey is well-advanced and has resulted in more physical silver and gold having been accumulated than by anyone else in history. And JPMorgan's perfect trading record on the COMEX is now known by more outsiders than ever before. And more are noticing that JPM won't respond to open and public accusations of wrongdoing, a most unusual circumstance. For these reasons and more, the unique scam that JPM has operated for nearly a decade would appear to be quite long in the tooth.

Of course, no one can pinpoint exactly when silver and gold prices will begin their inevitable mechanical reverse to the upside or even if that process might have already begun. And we certainly can't know in advance whether JPMorgan will add to short positions on the next rally. I have no fear in labeling JPMorgan, the CME Group and the CFTC as criminally involved in the ongoing silver and gold manipulation or that prices must move dramatically higher in time, but I'm still hesitant to declare exactly when. But related markets, like copper, platinum and palladium have recently penetrated important moving averages to the upside and silver and gold appear likely to join in with those upward penetrations. Since there seemed to be a pronounced coordinated price takedown in the metals, it wouldn't seem unreasonable for the reverse to take hold.

As far as what to expect in this Friday's COT report, I'm expecting managed money buying in copper, palladium and platinum, and perhaps in gold. I guess I wouldn't be surprised if there was some managed money buying in silver, mostly as a result of yesterday's rally above the 20 day moving average; but am not sure since the 50 day ma in silver has not been challenged yet (sometimes the technical funds add to short positions on rallies that stay below the 50 and 200 day moving averages. Regardless, the overall market structures in gold and silver will still remain exceedingly bullish.

As far as the ongoing money scoreboard for the newly added managed money short positions in gold and silver since June 12, prices today appeared to be little changed overall from Friday's close, for most of today. A very late selloff in gold and silver causes me to call the open and unrealized profits on the newly added technical fund short positions to be up from Friday's level of $715 million, to about $775 million.

Ted Butler

September 26, 2018

Silver – $14.40 (200 day ma – $16.13, 50 day ma – $14.85)

Gold – $1197 (200 day ma – $1285, 50 day ma – $1211)